



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Commerce

*For the Two Fiscal Years Ended
June 30, 2007*

OCTOBER 2007

LEGISLATIVE AUDIT
DIVISION

07-16

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Scott A. Seecat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

October 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce (department) for the two fiscal years ended June 30, 2007. The report contains seven recommendations related to the department's compliance with state law, state accounting policy, and federal regulations.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seecat

Scott A. Seecat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Commerce

Tony Preite, Director

Andy Poole, Deputy Director and Business Resources Division Administrator

Marty Tuttle, Chief Legal Counsel

Barb Charlton, Management Services Division Administrator

Dave Cole, Community Development Division Administrator

Betsy Baumgart, Montana Promotion Division Administrator

Bruce Brensdal, Housing Division Administrator

Carroll South, Board of Investments Executive Director

Michelle Barstad, Montana Facility Finance Authority Executive Director

Dave Desch, Research and Commercialization Technology Executive Director

Paul Reichert, Montana Heritage Preservation and Development Commission Interim Executive Director

Montana Heritage Preservation and

Development Commission

Term Expires

Mary Oliver, Chair	Ennis	5/23/2009
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Bill Howell, Vice Chair	West Yellowstone	5/23/2009
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Randy Hafer	Billings	5/23/2010
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Vicki Hucke	Helena	5/23/2008
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Philip Maechling	Florence	5/23/2010
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Colin Mathews	Virginia City	5/23/2010
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Senator Lynda Moss	Billings	5/01/2009
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Representative Diane Rice	Harrison	1/05/2009
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Marilyn Ross	Twin Bridges	5/23/2010
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Leslie Schmidt	Bozeman	5/23/2008
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Maureen Wicks	Ledger	5/23/2008
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Richard Sims, Director, Montana Historical Society

Joe Maurier, Proxy Appointment for the Director of the Department of Fish, Wildlife and Parks

Tony Preite, Director, Department of Commerce

For additional information concerning the Department of Commerce, contact:

Teri Juneau
Accounting and Fiscal Manager
Department of Commerce
PO Box 200501
Helena MT 59620-0501
(406) 841-2712
E-mail: tjuneau@mt.gov

REPORT SUMMARY

Department of Commerce

This audit report is the result of our financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2007. We issued a qualified opinion on the financial schedules contained in this report. This means the reader should use caution in relying on the financial information presented in the financial schedules, as well as the supporting data on the state's accounting system.

The report contains seven recommendations to the department. The previous audit report contained seven recommendations. The department implemented six recommendations, and partially implemented one recommendation. The partially implemented recommendation regarding suspension and debarment is discussed in this report beginning on page 8.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department minimize the time between the request for federal funds and their disbursement for federal programs purposes, as required by federal regulations..6

Department Response: Concur.....B-3

Recommendation #2

We recommend the department follow established internal control procedures to ensure housing assistance payment calculations are accurate prior to approval.7

Department Response: Concur.....B-3

Recommendation #3

We recommend the department properly calculate the average monthly Housing Assistance Payments reported to the federal government.....7

Department Response: Concur.....B-3

Recommendation #4

We recommend the department continue to implement procedures to ensure compliance with federal requirements that prohibit contracting with suspended and debarred parties. .9

Department Response: Concur..... B-4

Recommendation #5

We recommend the department work with the Board of Investments to implement procedures to ensure Investment Trust Fund activity is classified properly on the state's accounting records, in accordance with state accounting policy.10

Department Response: Concur..... B-4

Recommendation #6

We recommend the department establish procedures to verify the accuracy of revenue estimates recorded on the state's accounting records..... 11

Department Response: Concur..... B-4

Recommendation #7

We recommend the department:

A. Recognize revenue in the Enterprise Fund in accordance with state law and accounting policy.

B. Record deferred revenue in accordance with state law and accounting policy..... 12

Department Response: Concur..... B-4

Chapter I — Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2007. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are the Board of Housing (audit reports 07-07 and 06-07), the Board of Investments (audit reports 07-04 and 06-04), and the Montana Facility Finance Authority (audit report 06-12). These reports are available on request.

The objectives of this audit were to:

1. Determine whether the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
3. Determine whether the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2007.
4. Determine the status of prior audit recommendations.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A significant deficiency affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1 <u>Summary of Control Deficiencies</u>			
<u>Subject</u>	<u>Significant Deficiency</u>	<u>Material Weakness</u>	<u>Page</u>
Investment Trust Fund Activity	Yes	Yes	9
Revenue Estimates	Yes	Yes	10
Revenue Recognition	Yes	No	11

This audit report contains seven recommendations intended to improve the department's compliance with state law, state policy, and federal regulations. In accordance with section 5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

Areas of concern, if any, regarding compliance with laws and regulations or state accounting policy deemed not to have a significant effect on the successful operations of the department's programs are not specifically included in this report, but have been discussed with management.

In accordance with section 17-8-101, MCA, we reviewed Internal Service Fund fees, charges for services and fund equity balances. Based upon our review, the department is in compliance with this law.

Background

The Department of Commerce is responsible for encouraging and promoting economic and community development. As stated on the department's website, the department's mission is:

“The Department of Commerce through its employees, community partners, public outreach, and media contact enhances economic prosperity in Montana; fosters community led diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.”

The department consists of eight divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board and Montana Heritage Preservation and Development Commission are administratively attached to the department. The following is a description of the various divisions and entities comprising the department.

Director's Office/Management Services Division - consists of two programs. The Director's Office administers the department and its divisions by providing executive, administrative, legal, and policy guidance. The Management Services Division provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware. The division is budgeted for 16.5 full-time equivalent (FTE) positions.

Montana Promotion Division - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies. The division is budgeted for 27 FTE.

Business Resources Division - includes programs to enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and build the economic base of Montana through business creation, expansion, and retention efforts. The division is budgeted for 28.16 FTE.

Community Development Division - works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through two primary programs. These include the Community Development Block Grant Program (CDBG) and Treasure State Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board and their respective operations are also administered in this division. The division is budgeted for 13 FTE.

Montana Facility Finance Authority - issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers. The authority is budgeted for 2 FTE.

Board of Investments - has the sole authority to invest state funds in accordance with the Montana Constitution and statutory requirements. The board manages eight investment portfolios: 1) the All Other Funds portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Bond Pool; 5) Retirement Funds Bond Pool; 6) Montana Real Estate Pool; 7) Montana International Equity Pool; and 8) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy. The board is budgeted for 34 FTE.

Board of Research and Commercialization Technology - was created to provide a predictable and stable source of funding for research and commercialization projects; expand and strengthen research efforts for the state's basic industries to increase their impact on the state's economy; and expand research efforts into areas beyond the scope of the state's basic industries. The board is budgeted for 2 FTE.

Housing Division - administers the federal Section 8 Housing Programs, which provide rent subsidies to eligible low-income families and individuals. The Montana Home Investment Partnership Program (HOME) provides funds to strengthen public/private partnerships to provide more affordable housing. The Board of Housing helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds. The division is budgeted for 45 FTE.

Montana Heritage Preservation and Development Commission - manages certain state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley. The commission is budgeted for 24.25 FTE.

Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2005. The report contained seven recommendations. The department implemented six recommendations and partially implemented one recommendation. The partially implemented audit recommendation concerning federal suspension and debarment requirements is discussed in this report beginning on page 8.

Chapter II — Findings and Recommendations

WIA and WIRED Activity

The department requested and received federal funds to which it was not yet entitled.

The Department of Labor and Industry is Montana's designated recipient of the federal Workforce Investment Act (WIA) and Workforce Innovation in Regional Economic Development (WIRED) federal awards. The authority to spend these federal dollars lies with other state agencies, including the Department of Commerce (department). The agreements between the department and the Department of Labor and Industry indicate the department's requisitions for cash will be honored in amounts and at times judged proper to carry out activities specified in the agreements.

Federal regulations require minimal time between the draw of funds from the federal government and the disbursement of funds for federal program purposes. To comply, each cash draw must be limited to the minimum amount needed and must be timed to coincide with actual, immediate cash disbursements for federal program costs.

During the audit we analyzed cash transactions and balances for each of the WIA and WIRED accounts at the department, and noted the following:

- ♦ The department requested cash for the WIA program only one time during the audit period. The request, dated March 29, 2006, was for \$400,000. The WIA account carried an average \$205,000 cash balance for the audit period. The WIA account cash balance at the end of fiscal years 2006-07 and 2005-06 was \$64,463 and \$357,933, respectively.
- ♦ The department requested cash for the WIRED program six times during the audit period. The WIRED grant agreement between the federal Department of Labor and the Montana Department of Labor and Industry specifies payments can be drawn down on an as needed basis covering a 48-hour period. The draw request amounts and two-day post request cash balances are summarized in the table below. The WIRED account cash balance at the end of fiscal years 2006-07 and 2005-06 was \$575,603 and \$10,047, respectively.

Table 2
Summary of WIRED Cash Draws

<u>Draw Date</u>	<u>Draw Amount</u>	<u>Two-Day Post Draw Cash Balance</u>
5/4/2006	\$10,000	\$5,066.52
6/28/2006	\$10,000	\$10,047.09
9/5/2006	\$10,000	\$7,704.34
10/6/2006	\$250,000	\$251,566.66
2/14/2007	\$100,000	\$106,744.44
3/5/2007	\$1,000,000	\$1,103,378.34

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resources System.

Department personnel provided a variety of reasons for drawing cash in advance of expenditures. However, the federal cash draw requirement applies to the WIA and WIRED programs and should be followed. After we brought this to the attention of the department, the department returned excess cash to the Department of Labor and Industry.

RECOMMENDATION #1

We recommend the department minimize the time between the request for federal funds and their disbursement for federal programs purposes, as required by federal regulations.

Section 8 Housing Choice Vouchers Program

There are deficiencies in the department's internal controls over the federal Section 8 Housing Choice Vouchers Program.

The department administers the federal Section 8 Housing Choice Vouchers Program (vouchers program). The vouchers program provides rental assistance to help very low income families afford decent, safe, and sanitary rental housing. The department contracts with field agents who determine eligibility for the program, perform inspections of the rental units, calculate the amount of housing assistance, and conduct annual re-examinations to ensure continuing client eligibility. Supporting documentation is included in files maintained by the department and relevant information is input to the department's Housing Assistance Payment Plan Yearly (HAPPY) system. Both department personnel and field agents have access to the HAPPY system.

Federal regulations, OMB Circular A-133, require the department to maintain internal control over federal programs that provides reasonable assurance that federal awards are managed in compliance with requirements that could have a material effect on its federal programs. The issues discussed in the following section identifies how the department could improve internal controls over the vouchers program as well as compliance with OMB Circular A-133 requirements.

Housing Assistance Payments

The amount of housing assistance paid by the vouchers program is originally calculated by the field agents when they update information in HAPPY. Information such as household membership, income, rental unit type, number of bedrooms, and allowance for utility costs paid by the client is used to calculate the housing assistance payment. The documentation supporting the housing assistance calculation is sent to the department, and department staff verify and correct field agent input to HAPPY prior to approving the housing assistance payment.

During the audit, we sampled 81 housing assistance payments from the first 21 months of the audit period and noted eight instances where the department did not identify and

correct errors in the field agent's calculations prior to approving the payment. Of the eight sample errors, four involved incorrect housing assistance payments. For these items, a total of \$468 in additional assistance should have been paid by the vouchers program. The department cited human error as the reason the errors were not identified and corrected prior to approval.

Sample results indicate that additional housing assistance calculation errors exist for the first 21 months of the audit period. Additional errors likely include overpayments as well as underpayments. We sampled ten additional housing assistance payment calculations for the last three months of the audit period and noted no errors.

RECOMMENDATION #2

We recommend the department follow established internal control procedures to ensure housing assistance payment calculations are accurate prior to approval.

Section 8 Moderate Rehabilitation Program Reports

The department's reports to the federal government contain miscalculated amounts.

The department administers the Section 8 Moderate Rehabilitation (Mod Rehab) program. Under this program property owners rehabilitate substandard housing and then lease the units to low income families. In return, the federal government provides rent subsidies to the property owner based on a contract, which includes the number and type of rental units under subsidy.

The department submits reports for Montana's 12 Mod Rehab housing projects each spring. The federal government uses the reports to estimate the cash needs for each housing project, and to allocate the federal moneys to the projects. Required report elements include expenditure estimates and various year-to-date averages, including the average tenant payment and average housing assistance payment (HAP). The formula used by the department to calculate average HAP duplicates one month of expenditures, overstating the average HAP reported to the federal government. All 12 Mod Rehab reports we reviewed contained this error. The overstatements ranged from \$27 to \$59, or 8.4 to 12.91 percent. The department staff responsible for the calculation said a supervisor had instructed the calculation to be performed as described.

RECOMMENDATION #3

We recommend the department properly calculate the average monthly Housing Assistance Payments reported to the federal government.

Suspension and Debarment

The department made payments to subgrantees without ensuring the subgrantees were not suspended or debarred from receiving federal funds.

The department administers the Home Investment Partnership Program (HOME) and Community Development Block Grant (CDBG) federal awards. Under these programs, the department subgrants the federal dollars to projects that serve low- and middle-income families. Payments for a particular subgrant can be made over a period of several years.

Federal regulations require the department to ensure and document that federal dollars are not provided to any party which is suspended or debarred from participation in federal assistance programs. The following sections outline how the department's compliance with suspension and debarment requirements could be improved.

- ♦ During the prior audit, we reported the department did not have procedures in place to ensure subgrantees for the HOME program were not suspended and debarred from receiving federal dollars. During the current audit, we sampled ten HOME grant files and found that the department had not completed suspension and debarment verifications for nine of the subgrantees. The single subgrant for which the suspension and debarment requirement was verified involved a subgrant awarded during the audit period, while the nine exceptions related to subgrants awarded during previous audit periods. In response to the prior audit recommendation, the department intended to verify the recipients of previously awarded subgrants were not suspended and debarred. However, the department did not do so and continued to make payments for subgrants that were awarded during previous periods. We confirmed the department updated the HOME grant files for subgrants awarded prior to July 1, 2005.
- ♦ The CDBG program awards different types of subgrants, including economic development, planning, and community development subgrants. We reviewed ten CDBG grant files and noted seven did not contain evidence that the subgrantees' suspension and debarment status had been checked. After further investigation, we found that the economic development contracts included suspension and debarment language. By signing the contract, the subgrantee asserts they are not suspended or debarred from receiving federal funds, which meets the federal requirement. The planning and community development contracts did not contain the suspension and debarment language. Department staff indicated they relied on the boiler plate contract language, and believed the suspension and debarment language was included in all CDBG contracts. We brought this issue to the attention of the department at the time the applications for subgrant awards were being reviewed. We reviewed the new CDBG contracts and confirmed the department had included the suspension and debarment language.

Without documentation that a subgrantee's suspension and debarment status was considered, the department can not demonstrate compliance with the federal requirement.

RECOMMENDATION #4

We recommend the department continue to implement procedures to ensure compliance with federal requirements that prohibit contracting with suspended and debarred parties.

Accounting Errors

During the audit, we identified activity on the accounting records that was not recorded in accordance with state law and policy. Section 17-1-102, MCA, requires state agencies to input all necessary transactions to the state's accounting system by the end of each fiscal year to present the receipt, use, and disposition of all money and property for which the agency is responsible, in accordance with generally accepted accounting principles. The Department of Administration establishes state accounting policy to implement this law. The accounting issues discussed below result from inadequate review of the accounting transactions and reports to ensure the accounting records are complete and accurate.

Investment Trust Fund Prior Year Revenue and Expenditure Transactions

Errors in Investment Trust Fund Prior Year Revenue and Expenditure transactions contributed to the Independent Auditor's Report qualification.

State law authorizes Montana local government units, including cities, counties and school districts, to remit certain funds for investment under the direction of the Board of Investments (board). While the funds are in the possession of the board, they are accounted for in the Investment Trust Fund on the state's accounting records.

The board tracks the day-to-day local government investment activity in an electronic spreadsheet. At the end of each month, the board uses the spreadsheet to record the activity on the state's accounting records and reconciles the monthly activity to ensure it is complete. During portions of each fiscal year 2006-07 and fiscal year 2005-06, the spreadsheet contained errors that caused some transactions to be recorded as prior year activity. The board indicated that although the error in the spreadsheet was identified by staff, there was not sufficient time at the end of fiscal year 2006-07 to make correcting entries to the state's accounting system.

State accounting policy indicates a prior year adjustment is to be processed when correcting an error made in the prior fiscal year. Local government investments activity was related to current year activity only. Table 3 on the following page summarizes the misstatements contained on the state's accounting records.

Table 3
Investment Trust Fund
Prior Year Revenue and Expenditures Errors

Fiscal Year 2006-07

	<u>Over (Under) Stated</u>
Prior Year Revenues & Transfers-In	\$790,847,226
Nonbudgeted Revenues & Transfers-In	(790,847,226)
Prior Year Expenditures & Transfers-Out	449,036,455
Nonbudgeted Expenditures & Transfers-Out	(449,036,455)

Fiscal Year 2005-06

	<u>Over (Under) Stated</u>
Prior Year Revenues & Transfers-In	\$123,236,581
Nonbudgeted Revenues & Transfers-In	(123,236,581)
Prior Year Expenditures & Transfers-Out	197,625,527
Nonbudgeted Expenditures & Transfers-Out	(197,625,527)

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resources System.

This issue contributed to the Independent Auditor's Report qualification described on page A-3. The department and the board should more thoroughly review accounting transactions and reports to ensure transactions are recorded in accordance with state accounting policy.

RECOMMENDATION #5

We recommend the department work with the Board of Investments to implement procedures to ensure Investment Trust Fund activity is classified properly on the state's accounting records, in accordance with state accounting policy.

Revenue Estimates

Revenue estimate errors contributed to the Independent Auditor's Report qualification.

To prepare a state budget, section 17-7-111, MCA, emphasizes the need for consistent and accurate information from parties including executive branch agencies. Necessary information includes estimated receipts by fund type and fund category.

During the audit, we identified ways the department can improve accuracy in recording revenue estimates.

- ♦ For fiscal year 2005-06, we identified \$16.9 million in duplicate revenue estimates on the state's accounting system, resulting in an overstatement of revenue estimates in the Federal Special Revenue Fund. The duplicated revenue estimates related to the department's CDBG and HOME federal awards. While the department established overall estimates for CDBG and HOME, staff indicated revenue estimates for individual subgrants were also input to the state's accounting system because the individual revenue estimates are used as a management tool to track the progress of each subgrant.
- ♦ For fiscal year 2005-06, we noted a revenue estimate of \$48.6 million in the Enterprise Fund for the Board of Housing. Board of Housing activity is recorded to nonbudgeted accounts on the state's accounting system. Revenue estimates for nonbudgeted activity provide no meaningful data because the state's accounting system does not differentiate between budgeted and nonbudgeted revenue estimates.

These issues contributed to the Independent Auditor's Report qualification described on page A-3. When this issue was brought to the attention of the department, staff took steps to ensure these revenue estimates were accurate for fiscal year 2006-07

RECOMMENDATION #6

We recommend the department establish procedures to verify the accuracy of revenue estimates recorded on the state's accounting records.

Revenue Recognition

The department improperly recorded revenue transactions.

The following sections discuss how the department can improve accounting for revenue.

Enterprise Fund

The department accounts for the vouchers program in the state's Enterprise Fund. Monthly, the federal government sends the department one-twelfth of the amount they estimate the department will need for the year to administer the vouchers program. The department uses the money to make housing assistance payments and to pay for administrative costs.

In January 2006, the department was notified by the federal government to retain unspent money in the vouchers program account. The department indicated that the excess money was recorded as deferred revenue to hold the funds in case the federal government requests the funds be returned in the future.

State accounting policy specifies that proprietary fund types, which include the Enterprise Fund, should recognize revenue when the revenue is realizable, measurable, and all eligibility requirements are met. Based on our audit, the vouchers program receipts meet the revenue recognition requirements outlined in state accounting policy. In addition,

because the federal government has indicated the excess money should be retained by the department, all moneys from the federal government should be recorded as federal revenue on the state's accounting system when they are received.

By recording unspent federal moneys as deferred revenue, the department's federal revenue and ending fund balance in the Enterprise Fund are understated by approximately \$1.9 million at June 30, 2006. The department properly recorded the unspent federal moneys for fiscal year 2006-07.

Federal Special Revenue Fund

In fiscal year 2005-06, the department recorded cash receipts for the WIA and WIRED programs as federal revenue on the state's accounting records. These moneys were already recorded as federal revenue by the Department of Labor and Industry. During the audit we determined the activity should be recorded as transfers, in accordance with state accounting policy, and the department recorded transactions to properly record the fiscal year 2006-07 activity.

In fiscal year 2006-07, the department recorded deferred revenue and reduced federal revenue in each the WIA and WIRED accounts in amounts approximating the ending cash balances. Because the department did not have federal revenue to defer, the department should not have recorded the transactions. As a result, federal revenue is understated by \$615,751 on the department's Schedule of Total Revenues & Transfers-In for fiscal year 2006-07.

The department indicated the transactions were necessary to ensure the federal accounts did not have an ending fund balance. If the department had requested and received cash in accordance with federal cash management requirements for WIA and WIRED programs, as discussed on page 5, these entries to eliminate fund balance would be unnecessary.

RECOMMENDATION #7

We recommend the department:

- A. *Recognize revenue in the Enterprise Fund in accordance with state law and accounting policy.*
 - B. *Record deferred revenue in accordance with state law and accounting policy.*
-

Independent Auditor's Report & Department Financial Schedules

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Department of Commerce's accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2007, and the Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2006. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The department recorded revenue estimates for nonbudgeted activity in the Enterprise Fund and duplicated revenue estimates for certain budgeted activity in the Federal Special Revenue Fund. As a result, revenue estimates for the Enterprise and Federal Special Revenue funds are overstated by \$48.6 million and \$16.9 million, respectively, on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2006.

The department recorded prior year revenues and expenditures for certain current year activity in the Investment Trust Fund. As a result, prior year revenues & transfers-in adjustments is overstated and nonbudgeted revenues & transfers-in is understated by \$790,847,226 and \$123,236,581 for the fiscal years ended June 30, 2007, and 2006, respectively, on the Schedules of Total Revenues & Transfers-In. Prior year expenditures and transfers-out adjustments are overstated and nonbudgeted expenditures and transfers-out are understated by the same amounts on the Schedules of Total Expenditures & Transfers-Out. These accounts are also misstated by the same amounts on the Schedule of Changes in Fund Balances for the

fiscal year ended June 30, 2007, and the Schedule of Changes in Fund Balances & Property Held In Trust for the fiscal year ended June 30, 2006.

In our opinion, except for the effects of the matters discussed in the preceding two paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Commerce for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 27, 2007

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund
FUND BALANCE: July 1, 2006	\$ (973,330)	\$ 4,846,873	\$ (4,542,917)	\$ 151,939,263	\$ 409,128	\$ 654,914,928
ADDITIONS						
Budgeted Revenues & Transfers-In		5,610,898	14,087,174	38,686,789	4,412,514	
Nonbudgeted Revenues & Transfers-In	2,382	48,425	237	61,861,998	900,124	761,225,793
Prior Year Revenues & Transfers-In Adjustments		46,856	309,840	(255,481)	38,906	790,847,226
Direct Entries to Fund Balance	9,938,859	24,415,765		714,275	(44,934)	
Total Additions	9,941,241	30,121,944	14,397,251	101,007,581	5,306,610	1,552,073,019
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	9,772,013	37,486,696	19,463,032	87,445,805	5,148,128	
Nonbudgeted Expenditures & Transfers-Out	(811)	665,052		2,159,599	78,762	833,392,529
Prior Year Expenditures & Transfers-Out Adjustments	(261,786)	(545,408)	(643,326)	(20,872)	7,447	449,036,455
Total Reductions	9,509,416	37,606,340	18,819,706	89,584,532	5,234,337	1,282,428,984
FUND BALANCE: June 30, 2007	\$ (541,505)	\$ (2,637,523)	\$ (8,965,372)	\$ 163,362,312	\$ 481,401	\$ 924,558,963

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on Page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Investment Trust Fund
FUND BALANCE: July 1, 2005	\$ (2,719,342)	\$ (3,500,383)	\$ (1,414,668)	\$ 149,152,155	\$ 576,077	\$ (900)	\$ 580,347,134
PROPERTY HELD IN TRUST: July 1, 2005						\$ 900	
ADDITIONS							
Budgeted Revenues & Transfers-In		5,520,973	15,017,644	34,558,993	4,466,249		
Nonbudgeted Revenues & Transfers-In	2,527	42,326	1	52,403,875	12		1,075,696,175
Prior Year Revenues & Transfers-In Adjustments		11,210	344,325	(734,763)			123,236,581
Direct Entries to Fund Balance	9,455,828	23,702,231		(367,652)	(45,620)	900	
Additions to Property Held in Trust						900	
Total Additions	9,458,355	29,276,740	15,361,970	85,860,453	4,420,641	1,800	1,198,932,756
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	7,901,017	21,092,351	18,537,041	82,780,811	4,550,583		
Nonbudgeted Expenditures & Transfers-Out	(423)	119,498		249,204	30,846		926,739,435
Prior Year Expenditures & Transfers-Out Adjustments	(188,251)	(282,365)	(46,822)	43,330	6,161		197,625,527
Reductions in Property Held in Trust						1,800	
Total Reductions	7,712,343	20,929,484	18,490,219	83,073,345	4,587,590	1,800	1,124,364,962
FUND BALANCE: June 30, 2006	\$ (973,330)	\$ 4,846,873	\$ (4,542,917)	\$ 151,939,263	\$ 409,128	\$ 0	\$ 654,914,928
PROPERTY HELD IN TRUST: June 30, 2006						\$ 0	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
Licenses and Permits							
Taxes	\$ 2,382	\$ 45,681	237 \$	1,015			\$ 45,681
Charges for Services		215,787 \$		979,372 \$	4,264,733		219,421
Investment Earnings		281,824		59,455,879			5,525,929
Sale of Documents, Merchandise and Property		403,026	23,880	63,700		39,296,737	99,179,522
Rentals, Leases and Royalties		44,843					108,543
Contributions and Premiums		218,093					218,093
Miscellaneous		6,623				1,512,776,282	1,512,776,282
Grants, Contracts, Donations and Abandonments		677,344					6,623
Other Financing Sources		3,812,958	1,780,000	1,250,000	900,000		677,344
Federal			12,593,134	38,541,815			7,742,958
Federal Indirect Cost Recoveries				1,525	186,811		51,134,949
Total Revenues & Transfers-In	2,382	5,706,179	14,397,251	100,293,306	5,351,544	1,552,073,019	1,677,823,681
Less: Nonbudgeted Revenues & Transfers-In	2,382	48,425	237	61,861,998	900,124	761,225,793	824,038,959
Prior Year Revenues & Transfers-In Adjustments		46,856	309,840	(255,481)	38,906	790,847,226	790,987,347
Actual Budgeted Revenues & Transfers-In	0	5,610,898	14,087,174	38,686,789	4,412,514	0	62,797,375
Estimated Revenues & Transfers-In		13,411,150	31,503,117	45,694,154	5,567,071		96,175,492
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (7,800,252)	\$ (17,415,943)	\$ (7,007,365)	\$ (1,154,557)	\$ 0	\$ (33,378,117)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$	(4,319)					\$ (4,319)
Taxes		(60,749)					(60,749)
Charges for Services		(154,082)		157,307 \$	(1,091,388)		(1,088,143)
Investment Earnings		(1,959,579)	(45,372)	(1,860,278)			(3,865,229)
Sale of Documents, Merchandise and Property		(17,724)		63,700			45,976
Rentals, Leases and Royalties		58,093					58,093
Miscellaneous		(60,269)		(4,000)			(64,269)
Grants, Contracts, Donations and Abandonments		(1,851,623)					(1,851,623)
Other Financing Sources		(3,750,000)	(17,370,571)	(5,365,619)			(3,750,000)
Federal				1,525	(63,189)		(22,736,190)
Federal Indirect Cost Recoveries							(61,664)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (7,800,252)	\$ (17,415,943)	\$ (7,007,365)	\$ (1,154,557)	\$ 0	\$ (33,378,117)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
Licenses and Permits							
Taxes	\$ 2,515	\$ 3,000					\$ 3,000
Charges for Services	12	202,062	267	770			205,614
Investment Earnings		251,857		766,274	\$ 4,230,673		5,248,816
Sale of Documents, Merchandise and Property		331,439	28,100	49,087,054		\$ 23,952,188	73,398,781
Rentals, Leases and Royalties		29,856		65,000			94,856
Contributions and Premiums		224,931					224,931
Miscellaneous		36,250				1,174,980,568	1,175,016,818
Grants, Contracts, Donations and Abandonments		90,465					90,465
Other Financing Sources		612,949					612,949
Federal		3,791,700	15,333,603	200,000			3,991,700
Federal Indirect Cost Recoveries				36,101,557			51,435,160
Total Revenues & Transfers-In	2,527	5,574,509	15,361,970	86,228,105	235,588		243,038
Less: Nonbudgeted Revenues & Transfers-In	2,527	42,326	1	52,403,875	4,466,261		1,310,566,128
Prior Year Revenues & Transfers-In Adjustments		11,210	344,325	(734,763)	12		1,128,144,916
Actual Budgeted Revenues & Transfers-In	0	5,520,973	15,017,644	34,558,993	4,466,249		122,857,353
Estimated Revenues & Transfers-In		12,407,450	50,505,808	90,136,005	4,696,152	0	59,563,859
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (6,886,477)	\$ (35,488,164)	\$ (55,577,012)	\$ (229,903)	\$ 0	\$ 157,745,415
							\$ (98,181,556)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ 3,000					\$ 3,000
Taxes		202,062					202,062
Charges for Services		(105,701)		\$ (56,550)	\$ (415,491)		(577,742)
Investment Earnings		(1,566,579)	8,811	(50,982,533)			(52,540,301)
Sale of Documents, Merchandise and Property		(32,994)		65,000			32,006
Rentals, Leases and Royalties		63,731					63,731
Contributions and Premiums		11,250					11,250
Miscellaneous		15,338		(4,000)			11,338
Grants, Contracts, Donations and Abandonments		(1,701,584)		(140,000)			(1,841,584)
Other Financing Sources		(3,775,000)	(35,496,975)	(4,456,379)			(3,775,000)
Federal							(39,953,354)
Federal Indirect Cost Recoveries							183,038
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (6,886,477)	\$ (35,488,164)	\$ (55,577,012)	\$ 185,588	\$ 0	\$ (98,181,556)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Investments	Business Resources Division	Community Development Division	Director & Management Services	Facility Finance Authority	Housing Division	Montana Heritage Commission	Montana Promotion Division	Research & Commercialization	Total
Personal Services										
Salaries	\$ 1,914,998	\$ 1,394,686	\$ 554,684	\$ 844,089	\$ 113,815	\$ 1,611,253	\$ 756,978	\$ 1,104,549	\$ 83,030	\$ 8,378,082
Other Compensation	6,150	50	1,950	24	5,700	8,500			1,450	23,824
Employee Benefits	493,311	419,938	169,563	232,974	29,507	530,071	237,733	358,217	26,097	2,497,411
Personal Services-Other	49,709			26,391	(3,327)	6,476				79,249
Total	2,464,168	1,814,674	726,197	1,103,478	145,695	2,156,300	994,711	1,462,766	110,577	10,978,566
Operating Expenses										
Other Services	1,033,167	1,329,393	119,181	31,898	56,975	4,207,779	153,213	2,767,850	4,376	9,703,832
Supplies & Materials	33,330	111,387	33,008	51,365	4,413	137,823	108,090	222,020	2,470	703,906
Communications	50,823	147,191	18,397	14,336	6,537	107,509	40,680	3,293,330	2,187	3,680,990
Travel	34,599	147,132	26,502	12,452	16,774	129,134	36,413	185,612	3,011	591,629
Rent	190,080	144,123	69,089	88,344	18,669	207,840	60,161	217,811	7,330	1,003,447
Utilities		2,286					64,922			67,208
Repair & Maintenance	2,225	8,329	12,369	1,883	654	128,937	37,384	12,307	275	204,363
Other Expenses	441,151	440,111	115,664	11,790	29,058	759,877	146,803	493,430	16,523	2,454,407
Goods Purchased For Resale							31,045			31,045
Total	1,785,375	2,329,952	394,210	212,068	133,080	5,678,899	678,711	7,192,360	36,172	18,440,827
Equipment & Intangible Assets										
Equipment		8,478					15,015	39,869		63,362
Total		8,478					15,015	39,869		63,362
Capital Outlay										
Land & Interest In Land			91,734							91,734
Buildings			2,600							2,600
Other Improvements							22,609			22,609
Total			94,334				22,609			116,943
Local Assistance										
From State Sources								4,177,356		4,177,356
Total								4,177,356		4,177,356
Grants										
From State Sources		3,989,393	16,137,091		45,210			304,998	3,660,993	24,137,685
From Federal Sources		3,491,384	7,713,655	476,599		6,474,812				18,156,450
Total		7,480,777	23,850,746	476,599	45,210	6,474,812		304,998	3,660,993	42,294,135
Benefits & Claims										
From Federal Sources						31,253,018				31,253,018
STIP Distrib to Local Govts	1,282,428,984									1,282,428,984
Total	1,282,428,984					31,253,018				1,313,682,002
Transfers										
Accounting Entity Transfers	900,620	63,403	194	137	45	1,250,588	408	622,025	3,650,028	6,487,448
Total	900,620	63,403	194	137	45	1,250,588	408	622,025	3,650,028	6,487,448
Debt Service										
Bonds	3,836,819					43,105,857				46,942,676
Total	3,836,819					43,105,857				46,942,676
Total Expenditures & Transfers-Out	\$ 1,291,415,966	\$ 11,697,284	\$ 25,065,681	\$ 1,792,282	\$ 324,030	\$ 89,919,474	\$ 1,711,454	\$ 13,799,374	\$ 7,457,770	\$ 1,443,183,315
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 5,528,762	\$ 330,654						\$ 3,650,000	\$ 9,509,416
State Special Revenue Fund		1,900,370	16,806,634				\$ 1,292,192	\$ 13,799,374	3,807,770	37,606,340
Federal Special Revenue Fund		4,268,152	7,928,393	\$ 476,598		\$ 5,727,301	419,262			18,819,706
Enterprise Fund	\$ 5,068,329				\$ 324,030	84,192,173				89,584,532
Internal Service Fund	3,918,653			1,315,684						5,234,337
Investment Trust Fund	1,282,428,984									1,282,428,984
Total Expenditures & Transfers-Out	1,291,415,966	11,697,284	25,065,681	1,792,282	324,030	89,919,474	1,711,454	13,799,374	7,457,770	1,443,183,315
Less: Nonbudgeted Expenditures & Transfers-Out	834,342,013	44,642	(337)	31,778	(3,426)	1,260,523	(449)	620,449	(64)	836,295,129
Prior Year Expenditures & Transfers-Out Adjustments	449,030,566	(349,853)	(551,161)	21	220	(558,270)	3,324	(628)	(1,708)	447,572,511
Actual Budgeted Expenditures & Transfers-Out	8,043,387	12,002,495	25,617,179	1,760,483	327,236	89,217,221	1,708,579	13,179,553	7,459,542	159,315,675
Budget Authority	8,307,658	22,447,172	26,529,208	1,767,766	340,626	108,128,733	4,642,903	14,377,982	7,459,544	194,001,592
Unspent Budget Authority	\$ 264,271	\$ 10,444,677	\$ 912,029	\$ 7,283	\$ 13,390	\$ 18,911,512	\$ 2,934,324	\$ 1,198,429	\$ 2	\$ 34,685,917
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 775	\$ 500,269							\$ 501,044
State Special Revenue Fund		301,380	404,868				\$ 382,211	\$ 1,198,429	\$ 2	2,286,890
Federal Special Revenue Fund		10,142,522	6,892			\$ 499,885	552,113			11,201,412
Capital Projects Fund							2,000,000			2,000,000
Enterprise Fund	\$ 113,058				\$ 13,390	18,411,627				18,538,075
Internal Service Fund	151,213			7,283						158,496
Unspent Budget Authority	\$ 264,271	\$ 10,444,677	\$ 912,029	\$ 7,283	\$ 13,390	\$ 18,911,512	\$ 2,934,324	\$ 1,198,429	\$ 2	\$ 34,685,917

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Board of Investments	Business Resources Division	Community Development Division	Director & Management Services	Facility Finance Authority	Housing Division	Montana Heritage Commission	Montana Promotion Division	Research & Commercialization	Total
Personal Services										
Salaries	\$ 1,636,238	\$ 1,185,493	\$ 516,092	\$ 783,038	\$ 119,381	\$ 1,558,873	\$ 667,184	\$ 1,035,788	\$ 75,313	\$ 7,577,400
Other Compensation	8,960	450	1,300		4,390	9,750		150	1,750	26,750
Employee Benefits	417,993	346,238	153,959	212,618	32,587	491,548	208,272	323,241	23,556	2,210,012
Personal Services-Other	24,695			10,053	6,224	7,553				48,525
Total	2,087,886	1,532,181	671,351	1,005,709	162,582	2,067,724	875,456	1,359,179	100,619	9,862,687
Operating Expenses										
Other Services	864,522	1,345,769	190,729	36,168	44,838	3,319,615	170,615	1,947,819	4,647	7,924,722
Supplies & Materials	70,698	113,456	23,284	40,493	8,507	189,151	102,961	290,156	5,189	843,895
Communications	67,512	106,306	15,323	14,178	4,194	85,408	39,161	3,207,807	2,044	3,541,933
Travel	33,696	150,649	27,367	18,838	9,066	117,271	35,232	152,977	3,366	548,462
Rent	185,089	146,597	67,836	86,887	17,437	195,175	77,376	222,782	7,007	1,006,186
Utilities		2,229				(599)	48,628			50,258
Repair & Maintenance	12,792	13,654	2,405	2,811	376	171,865	108,677	14,330	277	327,187
Other Expenses	431,370	431,352	113,646	11,279	28,799	778,497	151,221	423,958	14,883	2,385,005
Goods Purchased For Resale							86			86
Total	1,665,679	2,310,012	440,590	210,654	113,217	4,856,383	733,957	6,259,829	37,413	16,627,734
Equipment & Intangible Assets										
Equipment								13,451		13,451
Intangible Assets				(6,990)						(6,990)
Total				(6,990)				13,451		6,461
Capital Outlay										
Other Improvements							28,425			28,425
Total							28,425			28,425
Local Assistance										
From State Sources								3,256,146		3,256,146
Total								3,256,146		3,256,146
Grants										
From State Sources		1,338,466	2,019,780		46,040	247,404		1,003,203	4,220,311	8,875,204
From Federal Sources		4,549,366	6,008,834	625,645		6,934,382				18,118,227
Total		5,887,832	8,028,614	625,645	46,040	7,181,786		1,003,203	4,220,311	26,993,431
Benefits & Claims										
From Federal Sources						32,399,439				32,399,439
STIP Distrib to Local Govts	1,124,364,961									1,124,364,961
Total	1,124,364,961					32,399,439				1,156,764,400
Transfers										
Accounting Entity Transfers			20,549		200,000			100,000	3,650,000	3,970,549
Total			20,549		200,000			100,000	3,650,000	3,970,549
Debt Service										
Bonds	3,065,332					38,582,778				41,648,110
Total	3,065,332					38,582,778				41,648,110
Total Expenditures & Transfers-Out	\$ 1,131,183,858	\$ 9,730,025	\$ 9,161,104	\$ 1,835,018	\$ 521,839	\$ 85,088,110	\$ 1,637,838	\$ 11,991,808	\$ 8,008,343	\$ 1,259,157,943
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 3,838,387	\$ 223,956						\$ 3,650,000	\$ 7,712,343
State Special Revenue Fund		678,941	2,696,108				\$ 1,204,284	\$ 11,991,808	4,358,343	20,929,484
Federal Special Revenue Fund		5,212,697	6,241,040	625,646		\$ 5,977,282	433,554			18,490,219
Enterprise Fund	\$ 3,440,678				\$ 521,839	79,110,828				83,073,345
Internal Service Fund	3,378,218			1,209,372						4,587,590
Investment Trust Fund	1,124,364,962									1,124,364,962
Total Expenditures & Transfers-Out	1,131,183,858	9,730,025	9,161,104	1,835,018	521,839	85,088,110	1,637,838	11,991,808	8,008,343	1,259,157,943
Less: Nonbudgeted Expenditures & Transfers-Out	926,764,321	(398)	20,400	6,045	206,177	42,943	(388)	99,491	(30)	927,138,561
Prior Year Expenditures & Transfers-Out Adjustments	197,631,730	(235,328)	(92,896)	(49)	2,816	40,520	2,204	(117,647)	(73,772)	197,157,578
Actual Budgeted Expenditures & Transfers-Out	6,787,807	9,965,751	9,233,600	1,829,022	312,846	85,004,647	1,636,022	12,009,964	8,082,145	134,861,804
Budget Authority	7,573,862	23,486,741	26,601,727	1,852,788	325,911	93,947,682	2,780,396	13,204,206	8,089,342	177,862,655
Unspent Budget Authority	\$ 786,055	\$ 13,520,990	\$ 17,368,127	\$ 23,766	\$ 13,065	\$ 8,943,035	\$ 1,144,374	\$ 1,194,242	\$ 7,197	\$ 43,000,851
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 911,805	\$ 501,965							\$ 1,413,770
State Special Revenue Fund		1,257,116	16,820,694				\$ 196,299	\$ 1,194,242	\$ 7,197	19,475,548
Federal Special Revenue Fund		11,352,069	45,468	3		\$ 543,606	948,075			12,889,221
Enterprise Fund	\$ 763,190				\$ 13,065	8,399,429				9,175,684
Internal Service Fund	22,865			23,763						46,628
Unspent Budget Authority	\$ 786,055	\$ 13,520,990	\$ 17,368,127	\$ 23,766	\$ 13,065	\$ 8,943,035	\$ 1,144,374	\$ 1,194,242	\$ 7,197	\$ 43,000,851

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Commerce Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Hard Rock Mining, Montana Heritage Commission, Treasure State Endowment, and Accommodations Tax.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include assistance programs such as Community Development Block Grants, Home Investment Partnership Program, Workforce Investment Act, Workforce Innovation in Regional Economic Development, and Small Business Administration.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department had appropriation authority in this fund in fiscal year 2006-07 for historic preservation and supporting improvements in Virginia and Nevada Cities, but the department did not expend any funds.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Funds include the Investment Division and Commerce Centralized Services.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. Department Enterprise Funds include Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bond, and Section 8 Housing Programs.

Fiduciary Fund Category

- ♦ **Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The department investment trust fund includes Short Term Investment Pool investing activity for local governments.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. Department agency funds include Bad Debt Collection

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding

liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2007, and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Enterprise, Internal Service and Agency funds include entries generated by state's accounting system to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund balances in the State Special Revenue and Enterprise funds also include entries to record or adjust fund balance reservations or designations.

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE

MONTANA
Department of Commerce

B-3

BRIAN SCHWEITZER, GOVERNOR

DIRECTOR'S OFFICE

301 S. Park Ave. ★ P.O. Box 200501 ★ Helena, Montana 59620-0501
Phone 406-841-2700 ★ Fax: 406-841-2701 ★ TDD: 406-841-2702 ★ <http://commerce.mt.gov>

October 11, 2007

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OCT 12 2007

LEGISLATIVE AUDIT DIV.

Mr. Scott A. Seacat, Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, Montana 59620-1705

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2007. Our response follows:

RECOMMENDATION #1

We recommend the department minimize the time between the request for federal funds and their disbursements for federal programs purposes, as required by federal regulations.

Response:

The department concurs. The department will draw money as needed for grant disbursements and administrative costs.

RECOMMENDATION #2

We recommend the department follow established internal control procedures to ensure housing assistance payment calculations are accurate prior to approval.

Response:

The department concurs. The errors resulted from numerous changes to the payment standard in one year. The section 8 program has limited the payment standard changes to once a year due to the complexity of the calculation.

RECOMMENDATION #3

We recommend the department properly calculate the average monthly Housing Assistance Payments reported to the federal government.

Response:

The department concurs. The Mod Rehab spreadsheet used to calculate the average monthly Housing Assistance Payments has been corrected to properly calculate the average monthly Housing Assistance Payments.

RECOMMENDATION #4

We recommend the department continue to implement procedures to ensure compliance with federal requirements that prohibit contracting with suspended and debarred parties.

Response:

The department concurs. The CDBG program has modified the grantee contracts to include suspension and debarment language. All prior and current grantees for HOME and CDBG have been checked for suspension and debarment. None were found. Future procedures include checking grantees for suspension and debarment.

RECOMMENDATION #5

We recommend the department work with the Board of Investments to implement procedures to ensure Investment Trust Fund activity is classified properly on the state's accounting records, in accordance with state accounting policy.

Response:

The department and the Board of Investments concur. The Board of Investments has addressed the recommendation and implemented certain procedures to ensure the Investment Trust Fund activity is properly classified on the state's accounting records, in accordance with state accounting policy.

RECOMMENDATION #6

We recommend the department establish procedures to verify the accuracy of revenue estimates recorded on the state's accounting records.

Response:

The department concurs. Budgeted and nonbudgeted revenue estimates are required during the legislative process to present a balanced budget to the legislature. These amounts are automatically transferred in the turnaround process at the beginning of each fiscal year. The department will ensure the nonbudgeted revenue estimates are removed at the beginning of each fiscal year. CDBG and HOME revenue estimates for grantees will be removed from the program level before they are allocated to the grantee level.

RECOMMENDATION #7

We recommend the department:

- A. Recognize revenue in the Enterprise Fund in accordance with state law and accounting policy.**
- B. Record deferred revenue in accordance with state law and accounting policy.**

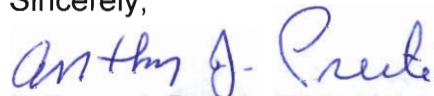
Response:

The department concurs.

- A. Money received from HUD throughout the year end will be recorded as federal revenue.**
- B. The department will record deferred revenue in accordance with state law and accounting policy.**

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,



Anthony J. Preite, Director
Department of Commerce